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The UNICEF recovery policy: Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Children's Fund (UNICEF) on recovery policy (E/ICEF/2003/AB/L.1). The report was prepared to review the current recovery policy for support costs for other resources programmes (formerly called supplementary-funded programmes). During the consideration of the matter, the Committee met with representatives of the Executive Director, who provided additional information.

2. On the basis of UNICEF recommendations in document E/ICEF/1998/AB/L.6, in its decision 1998/21 (E/ICEF/1998/6/Rev.1), the Executive Board approved an interim recovery policy and requested a review in 2002.** The Advisory Committee notes that the review of the recovery policy by the UNICEF Executive Board has been rescheduled for the first regular session in 2003. As an interim measure, in its decision 1998/21, the Executive Board decided that, "to cover the support costs to be incurred in the 1999 support budget, the recovery rate was to be increased from 3 to 5 per cent, while recognizing that the indirect support costs incurred in field offices and headquarters for supplementary funding exceeded this rate." As decided by the Executive Board, this rate was to be applied to all new agreements to be signed after the second regular session of the Executive Board in 1998. The Executive Board also authorized that the interest earned on the supplementary funding cash balances was to continue to be used, as an interim measure, to cover the shortfall in the recovery.

* E/ICEF/2003/2.

** Information on the development of the UNICEF recovery policy since its inception in 1968, when UNICEF was authorized to accept supplementary funds contributions from Governments, is contained in the annex to document E/ICEF/1994/AB/L.2 and Corr.1 and the development of the current UNICEF policy on recovery of support costs from supplementary-funded programmes for the period from 1986 to January 1998 is shown in annex I to document E/ICEF/1998/AB/L.6.

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3. For the biennium 2000-2001, the Advisory Committee was informed that, on the basis of a 5 per cent recovery rate, support costs charged to other resources programmes amounted to some $55 million, or 5 per cent of the final programme expenditure of $1,104 million funded from other resources in the biennium (see also E/ICEF/2001/AB/L.10, para. 8). The interest income earned on other resources cash balances amounted to $39.6 million (or about 3.6 per cent of the other resources programme expenditure) and was also used to cover support costs of other resources programmes. Thus, an effective total recovery rate of 8.6 per cent was applied in 2000-2001 to cover support costs incurred for other resources programmes.

4. The Advisory Committee recalls that, in the context of its review of the UNICEF biennial support budget proposal for the biennium 2002-2003 (E/ICEF/2001/AB/L.10), it indicated that the Executive Director should review the policy implications of the rapid increase in other resources and trust funds, as compared with regular resources. The review should include the effect, if any, on priorities in planning and in programme formulation and approval, as well as in terms of management capacity of the administration in situations where regular resources were decreasing, with inadequate recovery from other resources and trust funds (E/ICEF/2001/AB/L.11, para. 15).

5. The Advisory Committee was informed that efforts to increase regular resources via the resource mobilization strategy and multi-year funding framework approved by the Executive Board in decision 1999/8 (E/ICEF/1999/7/Rev.1) have not produced increases in regular resources. The medium-term strategic plan for the period 2002-2005, approved in decision 2001/22 (E/ICEF/2001/6), requires an increase in regular resources to fund organizational priorities in country programmes. For the biennium 2000-2001, regular resources accounted for 47 per cent of total resources, while other resources (including emergency funding) represented 53 per cent of total resources (see also E/ICEF/2003/AB/L.1, table 1).

6. The Advisory Committee recalls that UNICEF was to review its recovery policy in 2002 after the United Nations Joint Inspection Unit (JIU) completed a system-wide study on the subject of support costs related to extrabudgetary activities in organizations of the United Nations system (E/ICEF/2001/AB/L.10). The Advisory Committee notes that, in her report E/ICEF/2003/AB/L.1, the Executive Director has taken into account the views of JIU in its report JIU/REP/2002/3 of June 2002 and of the Committee, as indicated in paragraphs 9, 11-13 and 16 of its report E/ICEF/1998/AB/L.12 of 18 June 1998 on the UNICEF recovery policy.

7. The Advisory Committee notes that the methodology proposed in paragraph 13 of document E/ICEF/2003/AB/L.1 would be used to calculate the programme support and management and administration costs for other resources programmes (E/ICEF/2003/AB/L.1, para. 32 (c)). According to the proposed methodology, the support costs chargeable to regular resources programmes and to other resources programmes are calculated separately using the proportion of variable costs for regular resources and other resources programmes. Fixed costs are excluded from the calculation. Definitions of fixed and variable costs for various divisions and offices at headquarters are shown in annex I to document E/ICEF/2003/AB/L.1.

8. For the field offices, as indicated in paragraph 15 of the report, for the biennium 2000-2001, the total cumulative programme expenditure for all country offices has the split of 44 per cent to 56 per cent for regular resources, as compared

with other resources programmes. This proportion has been used to determine the variable support costs for regular resources and for other resources. Annex II of the report shows that, for the biennium 2000-2001, the percentage of other resources support to total other resources programme expenditure was 6.0 per cent for field offices (4.7 per cent for country offices and 1.3 per cent for regional offices).

9. For headquarters programme support units, the ratio of 44/56 for the breakdown of regular resources programme expenditure to other resources programme expenditure was also used as an approximate ratio for the breakdown of the support costs between regular resources and other resources. On the basis of 2000-2001expenditure data, the percentage of other resources support to total other resources programme expenditure was estimated at 2.5 per cent for headquarters programme support units (see E/ICEF/2003/AB/L.1, para. 17 and annex II).

10. For headquarters management and administration units, using again expenditure data for the biennium 2000-2001, the breakdown of the variable costs borne by regular resources as compared with variable costs borne by other resources was estimated to be in the ratio of 40 per cent to 60 per cent and the percentage of support was 3.5 per cent net. Taking into account the support costs attributable to headquarters programme support units of 2.5 per cent mentioned in paragraph 9 above, the total support costs attributable to headquarters units for supporting other resources programmes was 6.0 per cent of the total other resources programme expenditure in the biennium 2000-2001 (see E/ICEF/2003/AB/L.1, annex II). This represents an increase from the 3 per cent utilized in the current recovery policy for headquarters units, as a result of changes in the classification of fixed and variable costs as well as the increasing proportion of other resources (see E/ICEF/2003/AB/L.1, para. 24 and table 4). The Advisory Committee is not convinced that a case has been made to apply the ratio 40/60 of variable costs borne by regular resources to variable costs borne by other resources to the headquarters management and administration units (see E/ICEF/2003/AB/L.1, annex II). The Committee has indicated that the UNICEF administrative and support budget for headquarters continues to include top heavy and costly structures (see, for example, E/ICEF/1999/AB/L.10, paras. 22-29 and E/ICEF/2001/AB/L.11, paras. 24 and 34-37).

11. The Advisory Committee requested clarification on the time-survey study done to calculate the administrative handling costs incurred for the standard process for a sample of other resources contributions mentioned in paragraph 25 and annex III of document E/ICEF/2003/AB/L.1. The Committee was provided with a description of the standard process discussed in paragraph 25 of document E/ICEF/2003/AB/L.1 and a comparison of support costs for other resources for headquarters programme support units and management and administration units between those presented in the current document (E/ICEF/2003/AB/L.1) with those included in the 1998 recovery cost document (E/ICEF/1998/AB/L.6) (see annex to this report).

12. In paragraph 24 and table 4 of document E/ICEF/2003/AB/L.1, it is indicated that the total cost of supporting other resources programmes amounts to a total of 12 per cent, of which 6 per cent is attributable to field offices support and 6 per cent attributable to headquarters support. The Advisory Committee notes from paragraph 26 of document E/ICEF/2003/AB/L.1 that a sliding scale of support cost rates from 12 per cent to 9 per cent is proposed to take into account the size of contributions. The Committee requested further justification for the proposed sliding scale of

support cost rates. From the information provided, the Committee sees little justification for the proposed sliding scale of recovery rates; indeed such a procedure could lead to protracted negotiation with donors.

13. In addition to the sliding scale referred to above, in paragraphs 27-30 of document E/ICEF/2003/AB/L.1, a 2 per cent lower rate is recommended to be applied for contributions into thematic funds (see E/ICEF/2003/AB/L.1, para. 7 for an explanation of thematic funds). Furthermore, in addition, "to reduce the administrative burden to collect donor funds and provide more predictability, it is recommended also that if 80 per cent of the funds is received upon signing the agreements, a 1 per cent lower recovery rate would be applied. If 100 per cent is received, 2 per cent lower rate would be applied." The application of the lower rates is summarized in the table shown in paragraph 29 of the Executive Director's report. The Advisory Committee believes that the implementation of the proposed recovery rates schedule may be cumbersome to apply and, as with the sliding scale referred to in paragraph 12 above, may lead to contention as to the timing of contributions.

14. Rather than using a sliding scale under the proposed revised recovery policy, the Advisory Committee recommends that, as an interim measure, the recovery rate be increased from 5 per cent to 8 per cent of the actual other resources programme expenditure to cover the support costs incurred. Such an increase in the recovery rate should allow the interest income accrued on other resources cash balances to be credited to regular resources instead of being used to supplement support cost recovery. The Committee intends to revert to the matter and re-examine the experience of the application of this rate during its consideration of the biennial budget estimates for future bienniums.

Annex

Table 1
Standard process to administer other resources contributions

Calculation of cost estimates							
Item	**Activity**	**Org. unit**		**S/M time**	**Annual cost**	**Cost estimate**	**Subtotal**
	Project proposal	Country office	P4	1/2 day	131 470	**252**	
(A)	**Signing agreement**	PFO	P4	1/2 day	145 713	**279**	**531**
(B)	**Fund issuance**	PFO	P2	1 hr initial; 30 min amnd.	97 291	**45**	
	Issuance of invoices and posting of application; recording of income	DFAM/CU	GS6/P2	1 hr each	70561; 9729	**80**	
	Official receipt of cash and transmittal from/to donors	DFAM/CU	GS6	30 min	70 561	**17**	
(C)	**PBA issuance**	DFAM/Bdgt	P2	10 min	97 291	**8**	**150**
(D)	**PBA monitoring and management**	Country office	Avg P2	2 days	86 812	**665**	**665**
(E)	**Donor reporting**						
	Progress reports	Country office	Avg P3	2.5 days	109 701	**1 051**	
	Utilization reports	Country office	Avg P2	1 hr	86 812	**42**	**1 093**
	Certified financial reports	DFAM/Accts	Avg P2	1 day	97 291	**373**	**373**
(F)	**Rephasing/year end**	DFAM/Bdgt		30 min	70 561	**17**	
		Country office	Avg P2	30 min	86 812	**21**	**38**
(G)	**Closing contribution**	DFAM/Accts	Avg P2	1/2 day	97 291	**186**	
		DFAM/CU	GS6/P2	1/4 day	70561; 9729	**161**	
		DFAM/Bdgt	P2	10 min	97 291	**8**	
		Country Office	Avg P2	1 day	97 291	**373**	**728**
	Total					**3 578**	

Org = organizational; S/M = staff member; PBA = programme budget authorization; PFO = Programme Funding Office; DFAM = Division of Financial and Administrative Management; CU = Contributions Unit; Bdgt = Budget; Accts = Accounts; P = Professional; GS = General Service; Avg = average; hr = hour; amnd. = amendment; min = minutes.

Table 2

Comparison of support costs for other resources for headquarters between current paper and 1998 paper

(In millions of United States dollars)

	Current paper column 7 of annex II of E/ICEF/2003/AB/L.1	1998 paper E/ICEF/1998/AB/L.6
Headquarters (Programme support)		
Programme Division	11.2	0
EMOPS excluding Operations Centre (incl.Geneva)	2.7	6.4
Programme Manager System	1.7	0
Supply Division (net of warehouse recovery)	8.3	7
Subtotal, HQ programme support	23.9	13.4
HQ common costs	3.4	0
Subtotal, HQ programme support	**27.3**	**13.4**
Headquarters Management and administration		
Division of Policy and Planning	2.4	0
PFO	3.2	3.4
GRO excluding emergency	5.2	0
GRO solely for OR	0.3	0
DHR	6.9	1
DFAM	7.4	7
ITD	11.9	0
Subtotal	**37.3**	**11.4**
HQ administrative costs + UN reimbursement	10.2	0
Total HQ Management and administration	**47.5**	**11.4**
Recovered from other sources	-9.0	
Total HQ	**65.8**	**24.8**
Total other resources programme	1104	757
Percentage of recovery to cover headquarters	6%	3%

EMOPs = Office of Emergency Programmes; incl. = including; HQ = headquarters; PFO = Programme Funding Office; GRO = Geneva Regional Office; OR = other resources; DHR = Division of Human Resources; DFAM = Division of Financial and Administrative Management; ITD = Information Technology Division; UN = United Nations.